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Alternatives to Soviet Gas

Middle Eastern Gas

There are vast reserves of natural gas in the Middle East, especially in Iran and Qatar, which could be developed for export.

- -- Numerous proposals have surfaced recently, all of which are expensive because of transport costs.
- -- Qatar may export LNG in the 1990s and Iran could pipe gas to Europe by 1990.
- -- In addition to costs, some Europeans have doubts about political stability in the region and the wisdom of switching from OPEC oil to OPEC gas.

Iran Turkey Pipeline

Iran is again considering exporting gas to Western Europe.

- o Iran has gas reserves equivalent to 65 billion barrels of oil.
- o Iran had earlier planned to export 200,000 b/d oil equivalent annually to Western Europe through a swap agreement with the Soviet Union; the revolutionary regime has since cancelled the deal.
- o Iran has now reached an agreement in principle with Turkey to allow construction of an export pipeline through Turkey:
  - -- One proposal calls for a liquefaction plant for gas shipment through the Mediterranean.
  - -- Another proposal calls for a pipeline to Italy.
- o An Italian firm is preparing a preliminary feasibility study of the projects--estimated to cost $7 to $10 billion.
- o Both the Italians and the West Germans have indicated an interest in constructing this pipeline.
- o The gas is likely to be costly unless subsidized loans are secured.
- o A gas pipeline must traverse difficult terrain and would take a minimum of 5 years to complete.

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o A pipeline would pose some security risks by crossing several countries.

o Some potential European purchasers may be concerned about the wisdom of trading dependence on OPEC oil for dependence on OPEC gas.

Norwegian Gas

The Norwegians are fully aware of the role they must play in the European market in the 1990s if further penetration of Soviet gas is to be avoided.

-- Oslo can be expected to proceed smoothly with the development of its huge gas reserves only if technical and political obstacles are overcome.

-- The present government is receptive to a fairly rapid pace of development and has backed off somewhat from hawkish price demands.

-- Commercial obstacles in developing fields such as Block 31/2 (Troll) are sizable; public sector financing may be required particularly due to the risks associated with the new technology that will be required for deep water development.

Political Strategy

The United Kingdom will require additional Norwegian gas in the 1990s and may be more receptive to reaching an accord with Oslo than in the past.

-- London has attempted to reduce the role of the BGC as a monopsonist purchaser.

-- The commercial advantages of a swap deal are sizable and could ultimately outweigh other problems.

Commercial Considerations

Norwegian gas will be priced higher than Soviet gas.

-- Interest rate subsidies would help lower the premium to be paid, perhaps reducing it to less than $1 per million BTU.

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US Role

The US has a number of options to consider to facilitate the development of alternative gas supplies.

- -- project financing
- -- encouraging US companies to participate in technology and project development
- -- play a political role in facilitating agreement between parties, both governmental and commercial.

A conspicuous US role in pushing the alternatives could be damaging.

- -- European gas purchasers would view this as another effort to undermine the Soviet pipeline.
- -- Norway could view US pressure as a justification for returning to a hawkish pricing role.

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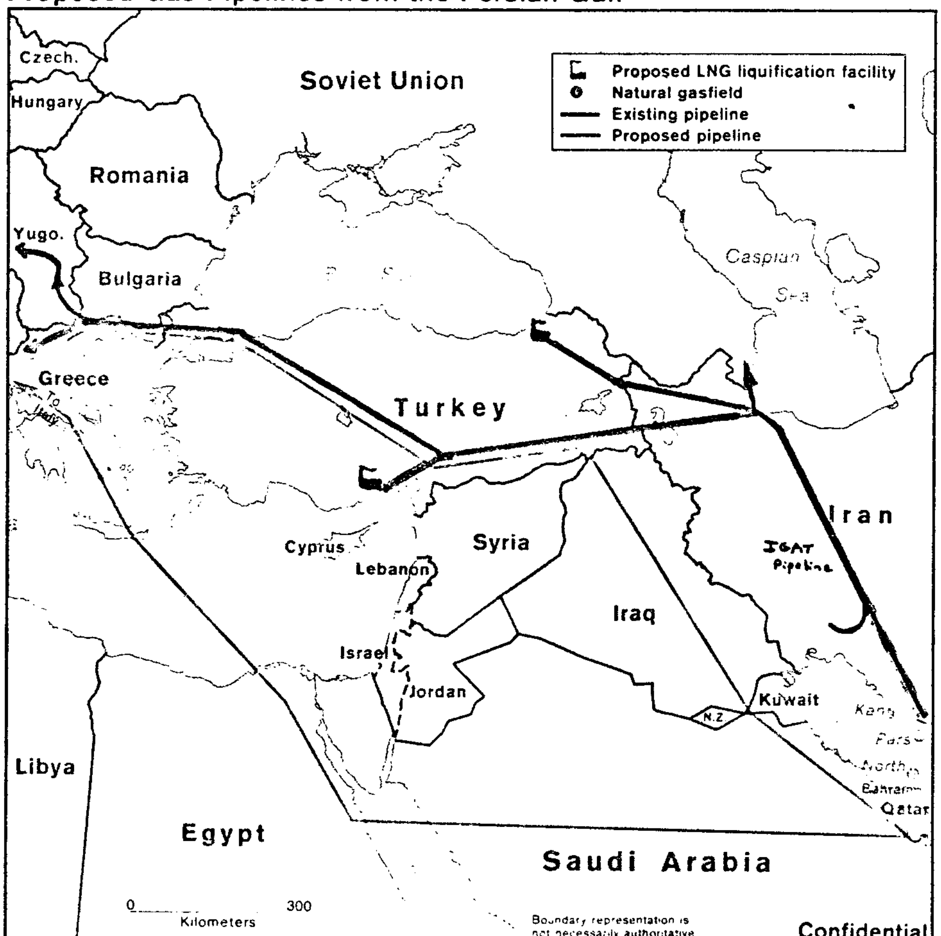
Proposed Gas Pipelines from the Persian Gulf



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